Proposed Policy Changes

The President requests sharp cuts in the health area, capping both federal Medicaid and Public Health Service spending. Most of the proposals have been submitted by the President in previous budgets and have not been approved by the Congress. More than half of the President's suggested cuts again would occur in Medicaid, the largest program in this function. Medicaid spending would be reduced by at least 4 percent in 1988 and by almost 17 percent in 1992. Public Health Service programs would be cut by one-quarter in 1992. Changes in the Federal Employees Health Benefits (FEHB) program would reduce federal costs by more than one-quarter in 1992.

Medicaid. The President has requested a number of changes in Medicaid that would reduce spending relative to the CBO baseline by at least $1.3 billion in 1988 and $21.6 billion over the projection period. One proposal would cap federal Medicaid payments to states at $1.0 billion below estimated current law spending and would limit future increases in federal payments to no more than the increase in the medical services component of the Consumer Price Index (MCPI). CBO estimates that the proposed cap on Medicaid spending would save $19.7 billion over the five-year projection period. This estimate assumes that the cap is set at $1.0 billion below CBO's baseline for Medicaid spending. If legislation were to set the cap at $1.0 billion below the Administration's estimate of current services, savings from the CBO baseline would be greater, totaling $31.8 billion over the projection period. In function 570, the President proposes to increase Medicare premiums, which Medicaid pays for some of its recipients. These higher premiums would increase Medicaid costs by about $0.6 billion in 1988. With the proposed cap on the federal share of Medicaid costs, however, higher Medicare premiums would have to be absorbed entirely by states that exceed their federal allotment.

The rate at which states' Medicaid expenditures are matched by the federal government is determined by a formula specified in law. Expenditures for certain administrative and medical services--development of computerized management and payment systems and family planning services, for example--are currently matched at higher rates. The President would eliminate these special rates. Reducing the higher match rates would lower federal payments to states by $2.3 billion over the projection period.

The President also proposes to place further limits on Medicaid coverage of people in public institutions and to encourage states to cover their Medicaid recipients through organizations, such as health maintenance organizations (HMOs), that provide health care on a fixed, prepaid basis.

These changes would not reduce federal payments because CBO assumes that states would not be able to achieve savings beyond the cap. The President also requests a demonstration project to reduce infant mortality, which would cost $85 million a year.

Public Health Service. The Administration proposes to cap spending for the Public Health Service at the 1987 level. This action would result in savings over five years of $10.7 billion below the CBO baseline. Most of this reduction is achieved through limiting research funding for the National Institutes of Health (NIH). The President's proposal would maintain about 19,100 NIH research grants a year, about 700 fewer than were supported by the 1987 appropriation. A reappropriation of $0.3 billion is requested, shifting funding from 1987 into 1988 in order to reach the lower grant level. The President also proposes to change significantly the way in which NIH research grants are funded. Many of the grant awards made by NIH are for projects involving several years of research. The Congress currently funds these grants for one year at a time. Beginning in 1988, the Administration would ask Congress to provide an additional $2.7 billion in appropriations in advance to pay for the future-year expenses of new grants awarded in 1988. Outlays would not be affected by this change because research expenses would continue to be paid when incurred.

The President again proposes to eliminate most grants for the education of health professionals and almost all funding for construction of Indian health facilities. The federal government would guarantee only 80 percent of the value of Health Education Assistance Loans and would reduce new guarantees by two-thirds, also suggested last year.

New proposals for reducing the budget include phasing out the National Health Service Corps and selling assets in both the Health Maintenance Organization and Medical Facilities loan programs. The Anti-Drug Abuse Act of 1986 provided the Public Health Service with an additional $0.3 billion in 1987 for drug abuse research, treatment, and prevention. The Administration does not request any additional funding for these supplemental activities but assumes that 1987 monies will be available in 1988.

Although total spending for the Public Health Service remains capped through 1992, the President has requested a 28 percent increase in federal funding for Acquired Immune Deficiency Syndrome (AIDS) research and prevention.

Federal Employees Health Benefits (FEHB). The Administration would lower the federal government's contribution for federal employees' health insurance premiums by changing the formula used to determine contributions. The proposal would tie the government's share of costs to the average of premiums in all FEHB plans, rather than, as under current law, to the average of premiums in only the six largest, high-option plans. The formula would also be weighted by the distribution of employees among all plans. This plan would lower the government's share of health insurance costs by shifting about $0.2 billion in costs from the government to federal employees in fiscal year 1988. About one-third of these savings appear in the health function. The rest of the savings accrue in the allowances function (920) as a result of lower personnel costs for government agencies.

In addition, the Administration proposes that the U.S. Postal Service (USPS) and the District of Columbia pay the government's contribution for postal and District retirees' health premiums. FEHB payments would be lowered by $0.4 billion in fiscal year 1988 and by a total of about $2.8 billion over the next five years. The USPS would be required to contribute more than $2.7 billion of this amount, and the District of Columbia would contribute the remainder.

Other. In other health-related areas, the Administration proposes to charge fees for services provided by the Food Safety and Inspection Service (FSIS). Fees would be set to recover the full cost of FSIS activities, thereby reducing outlays in the President's budget in $0.4 billion below the CBO baseline in each year.

## CBO Reestimates

CBO has reestimated the President's budget request upward by $2.0 billion in 1988 and $3.2 billion in 1992. Nearly all of this upward change occurs in the Medicaid program.

CBO's Medicaid baseline in 1988 is $1.8 billion higher than the Administration's estimates of current services. This difference results entirely from differing assumptions about the rate of growth in the Medicaid program from 1986 to 1988. CBO's Medicaid baseline increases almost 10 percent each year from 1986 through 1988, based on the average annual rate of growth of 9.5 percent over the last four years and the most recent growth rate of 10.3 percent between 1985 and 1986. CBO's higher baseline is also consistent with recent federal legislation that expanded the number of people eligible for Medicaid and with similar recent program expansions by a number of states. The Administration's estimates of current Medicaid spending assume a rate of growth of only 7 percent from 1986 to 1987 and of 5.6 percent from 1987 to 1988.

CBO has estimated the President's 1988 Medicaid request by reducing the CBO baseline by $1 billion. In future years, this 1988 level is increased by the percent change in the MCPI. The CBO reestimates for 1989 through 1992 reflect both the higher 1988 program level and the higher assumed growth in the MCPI. Reestimates in the Medicaid program total $1.9 billion in 1988 and $3.0 billion in 1992. Almost all of this reestimate results from CBO's assumption of a higher 1988 program level, with only one-quarter of the increase in 1992 resulting from higher assumed growth in the MCPI.

## FUNCTION 570: MEDICARE

MAJOR SPENDING CHANGES PROPOSED FOR BUDGET FUNCTION 570: MEDICARE (By fiscal year, outlays in billions of dollars)

| Item | 1988 | 1989 | 1990 | 1991 | 1992 | Cumulative Five-Year Changes |
|---|---|---|---|---|---|---|
| CBO Baseline | 83.1 | 92.6 | 104.4 | 117.0 | 130.9 | |
| Proposed Changes | | | | | | |
| Delay Outlays | | | | | | |
| Slow reimbursement | -1.3 | -0.2 | -0.2 | -0.2 | -0.2 | -2.1 |
| Eliminate PIP | -0.7 | -0.1 | -0.1 | -0.1 | -0.1 | -1.1 |
| Subtotal | -2.0 | -0.2 | -0.3 | -0.3 | -0.3 | -3.2 |
| Reduce Reimbursements to Providers | | | | | | |
| DRG reimbursement | -0.5 | -1.8 | -3.4 | -5.1 | -7.1 | -17.9 |
| Medical education | -1.2 | -1.5 | -1.7 | -1.8 | -2.0 | -8.3 |
| Capital | 0.0 | 0.0 | -0.6 | -0.7 | -0.8 | -2.1 |
| Physician payments | -0.2 | -0.3 | -0.4 | -0.5 | -0.6 | -1.9 |
| Repeal portions of OBRA 1986 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.4 |
| Other | -0.1 | -0.2 | -0.3 | -0.3 | -0.3 | -1.1 |
| Subtotal | -2.1 | -3.9 | -6.3 | -8.5 | -10.9 | -31.7 |
| Add to Beneficiary Costs | | | | | | |
| SMI premiums | -0.7 | -2.3 | -3.2 | -4.2 | -5.3 | -15.6 |
| SMI deductible | 0.0 | 0.0 | -0.1 | -0.1 | -0.1 | -0.4 |
| Eligibility delay | -0.2 | -0.2 | -0.2 | -0.3 | -0.3 | -1.2 |
| Subtotal | -0.9 | -2.5 | -3.5 | -4.5 | -5.7 | -17.1 |
| Miscellaneous Proposals | | | | | | |
| Secondary payer | 0.0 | -0.1 | -0.1 | -0.1 | -0.1 | -0.3 |
| Other proposals | 0.0 | 0.0 | -0.1 | -0.2 | -0.2 | -0.5 |
| Subtotal | 0.0 | -0.1 | -0.2 | -0.2 | -0.3 | -0.8 |
| Total | -5.1 | -6.7 | -10.2 | -13.5 | -17.2 | -52.7 |
| President's 1988 Budget as Estimated by CBO | 78.0 | 85.9 | 94.1 | 103.5 | 113.7 | |
| President's 1988 Budget | 73.0 | 81.1 | 87.9 | 95.9 | 104.4 | |
| CBO Reestimates | 5.0 | 4.7 | 6.2 | 7.6 | 9.2 | 32.8 |

Proposed Policy Changes

The President proposes a number of changes in Medicare that would reduce spending, relative to the CBO baseline, by $5.1 billion in 1988 and $52.7 billion over the projection period. These reductions would amount to a 10 percent reduction in projected Medicare spending over the 1988-1992 period. Many of the proposals have been included in previous budgets, but have not been approved by Congress. The budget also contains several proposals to repeal recent legislation in Medicare.

Over 40 percent of the savings in 1988 would come from shifting outlays forward into 1989. While these shifts would lower outlays in 1988, they would not alter the obligations of the federal government. Outlays would be only slightly delayed, not actually reduced. An additional 40 percent of the savings in 1988 are from reducing reimbursements to providers. The remaining savings would result from increases in beneficiary costs and other miscellaneous proposals.

Delaying Outlays. Under the Administration's policy, CBO estimates that $2 billion in outlays would be delayed from 1988 into 1989. While this delay would not affect total reimbursements to providers, it would affect the flow of funds to providers and could cause them some short-run cash problems. Two proposals in the budget delay outlays.

First, the Administration intends to pay its bills more slowly by increasing the number of days bills remain with the Medicare contractors responsible for processing claims. The Omnibus Budget Reconciliation Act of 1986 (OBRA-86) established maximum time periods in which most claims must be paid. The maximum is 30 days in 1987, 26 days in 1988, 25 days in 1989, and 24 days thereafter, with slightly shorter payment schedules for certain physician bills. The Administration plans to slow down payments so that the legislative limits become a minimum as well as a maximum. CBO's baseline does not reflect a slowdown because the intent of the legislation was to set only a maximum. Data recently collected by the Administration indicate that current payment practices are already within the legislative limits. The President's budget also proposes legislation to set a permanent schedule of 30 days for all providers. With these proposals, outlays would be reduced by $1.3 billion in 1988 relative to CBO's baseline.

Second, the President proposes that certain hospitals which serve a disproportionate share of low-income patients would no longer receive reimbursement on a Periodic-Interim-Payment (PIP) basis. Instead, they would be paid as their bills were submitted and processed, thus slowing down their reimbursement by several weeks. This action would save $0.7 billion in 1988.

Both of the initiatives to delay outlays would remain in effect permanently, and would therefore shift required outlay payments each year into the next fiscal year. The result would be large savings in 1988 with much smaller savings in subsequent years. However, obligations and total federal outlays over time would not be reduced.

Reducing Reimbursements to Providers. The President's budget includes several proposals to reduce reimbursements to providers. Relative to CBO's baseline, these proposals are estimated to reduce outlays by $31.7 billion over the next five years. Over half of the savings ($17.9 billion) would result from legislative initiatives to lower the rate of growth in hospital reimbursement. The Administration would repeal a provision of OBRA-86 that set the rate of increase for diagnosis-related groups (DRGs) in 1988 at the rate of growth of prices in the market basket of goods and services for hospitals minus 2 percent (estimated by both the Office of Management and Budget (OMB) and CBO at 2.9 percent) and would then return the authority for setting the DRG rate of increase to the Secretary of Health and Human Services. The Administration assumes that the Secretary would set the rate of increase at 1.5 percent in 1988 and at one-half of the rate of growth of prices in the hospital market basket in 1989 and thereafter. CBO's baseline assumes the full increase in the market basket each year beginning in 1989.

Since the prospective payment system was implemented in 1984, the cumulative increase in DRG rates has not kept up with the hospital rate of inflation as reflected by the market basket. DRG rates have increased by about 7 percent, while the market basket will have increased by an estimated 11 percent by the end of fiscal year 1987. Nevertheless, hospitals have maintained financial viability as measured by average profit margins. It is uncertain whether hospitals have adjusted by changing their mix of services, or whether initial DRG payments were set too high. Initial DRG payments were based on 1981 data, but if more recent 1984 data had been used, CBO analysis suggests that payments would have been about 10 percent lower. Thus, using the 1981 data may have allowed some leeway in hospital reimbursement, but the longer-run effect of continued increases below projected price increases of the market basket is uncertain.

The budget includes savings of $8.3 billion over the projection period from lowering reimbursement for the direct and indirect costs of medical education in hospitals with teaching programs. Direct costs of medical education include payments such as residents' and teachers' salaries, classroom expenses, and associated overhead. The change in direct payments would reduce the expenses that a hospital could claim by excluding all education costs of undergraduate nurses and allied health professionals, as well as classroom-related costs of intern and residency programs. Indirect payments compensate for costs such as the greater number of tests and procedures prescribed by interns and residents. The change in indirect payments would cut in half the current indirect teaching adjustment, which is based on the ratio of the number of residents and interns to the number of beds.

The President also proposes to change capital payments to hospitals by incorporating them into Medicare reimbursement to hospitals under the prospective payment system. This plan would be phased in with a two-year transition for hospitals' moveable equipment and a 10-year transition for fixed equipment. The proposal would be effective in 1988 but would be budget neutral until 1990. Savings from 1990 through 1992 are estimated at $2.1 billion.

Medicare payment for physician services continues to grow faster than the general economy. The President's budget proposes to reduce reimbursements for physician services. CBO estimates a savings of $1.9 billion over the projection period for these options. However, these estimates are preliminary and subject to change once details of the proposals become available.

The budget includes variations on proposals for physician payments previously submitted to the Congress and two new proposals. About 60 percent of the savings in physician reimbursement comes from the two new proposals. First, reimbursement for hospital services provided by radiologists, anesthesiologists, and pathologists would be paid through the hospital prospective payment system. Estimates of 1988 savings are only $10 million because a long lead time would be required to implement the complex administrative aspects of the proposal. Prospective reimbursement for these physicians could save an estimated $0.5 billion over the projection period. This estimate reflects a target established by the Administration, as details of the proposal were not available. Second, physicians who have not billed Medicare in the past would be paid 80 percent of the local prevailing charge for a service, rather than the average local charge. This proposal would save $0.7 billion over five years.

The Administration also continues to target certain physician services that are considered overpriced. For example, the Administration would reduce payments to physicians for cataract surgery by 13 percent, thereby saving $0.4 billion over the projection period. Other proposals would reduce reimbursements for certain "high-priced" physician services to be identified at a later time by the Administration, limit the allowable variation in charges for a procedure across geographic regions, and reduce the differences in payments to specialists and nonspecialists for certain procedures. These proposals could save $0.3 billion over the projection period, although details of the proposals were not available.

The Administration proposes repealing the OBRA-86 provision that set facility rates for renal dialysis, as well as the provisions that changed reimbursement for services performed by optometrists, occupational therapists, and physician assistants. The repeal of these provisions would save $0.4 billion over the projection period.

Other legislative and regulatory initiatives would lower payments for clinical laboratory services, reduce charges for durable medical equipment, and eliminate return-on-equity allowances in Medicare payments to skilled nursing facilities and outpatient hospital departments. Savings estimates for these proposals total $1.1 billion over the projection period, almost 70 percent of which comes from the reduction in payments for clinical laboratory services.

Adding to Beneficiary Costs. Under current law, premiums will be set at 25 percent of program costs through 1988 and will increase by the Social Security cost-of-living adjustment (COLA) in future years. CBO's estimate of Supplementary Medical Insurance (SMI) spending is projected to increase faster than the COLA, so that over time beneficiary premiums will decline as a portion of program costs. By 1992, estimated premiums will cover 19 percent of program costs.

The budget would raise out-of-pocket costs to beneficiaries by increasing the SMI premiums and deductible. While past budgets have included proposals to increase premiums, this year's proposals distinguish between current and new enrollees for the first time. Current enrollees would pay 25 percent of program costs through 1992; new enrollees would pay 35 percent of program costs; and third-party payers, including state Medicaid programs, would pay 50 percent of program costs. The table below displays CBO's projections of the proposed monthly premiums. Estimated monthly premiums for the President's budget assume estimated savings from other Medicare proposals requested in the budget. These three proposals would generate additional offsetting receipts of $15.6 billion over the projection period.

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Estimated Monthly Premiums
(By fiscal year, outlays in dollars)

| | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|
| CBO Baseline | 22.00 | 22.90 | 23.90 | 24.90 | 26.00 |
| President's Budget as Estimated by CBO | | | | | |
| Current enrollees | 21.70 | 24.00 | 26.50 | 29.30 | 32.30 |
| New enrollees | 30.30 | 33.50 | 37.10 | 41.00 | 45.20 |
| Third-party payers | 43.30 | 47.90 | 53.00 | 58.60 | 64.50 |

The current SMI deductible is $75 per year and has not been increased since 1982, while program costs have nearly doubled. Approximately 70 percent of Medicare enrollees meet the deductible each year. The President would increase the deductible each year by the change in the Medicare Economic Index (MEI). The deductible would be $79 in 1988 and increase to an estimated $88 in 1992, saving $0.4 billion over the projection period.

Finally, beneficiary costs would increase because Medicare eligibility for the elderly would be delayed one full month. Five-year savings, including lost SMI premiums, would total $1.2 billion.

Miscellaneous Proposals. Other proposals in the budget would save $0.8 billion over the projection period. The Congress recently enacted legislation that makes Medicare the secondary payer for the working elderly and disabled and their dependents who elect to take advantage of employer-provided health insurance. Previous legislation for the disabled affected only firms employing more than 100 workers. The President's budget would extend this requirement to medium-sized firms employing 20 or more workers, thus saving $0.3 billion over five years.

Other proposals include a voucher program and inclusion of state and local employees hired before March 31, 1986, in the Medicare program. In addition, savings would accrue because the Administration proposes to cap growth in administrative expenditures over the projection period.

## CBO Reestimates

CBO reestimates raise the President's Medicare budget by $5.0 billion 1988 and by $9.2 billion in 1992. These differences represent 6 percent and 8 percent, respectively, of total Medicare spending in the President's budget in those years. About $1.6 billion, or one-fifth, of the difference in 1992 is attributable to CBO's assumptions of higher inflation rates. The remaining differences are technical.

By far the largest technical differences are in the Hospital Insurance (HI) program--$4.5 billion in 1988 and $8.1 billion in 1992. The reestimates in HI can be explained by differences in assumed annual growth rates and in the estimated 1986 HI program level. The CBO projections of HI spending assume a continuation of recent trends in the growth of hospital services. This growth results from many factors, including increases in caseloads, hospital admissions, disproportionate increases in expensive diagnoses, capital costs, home health services, and nursing services. The Administration's estimate assumes that growth in these factors will decline from recent experience. Taken together, these differences in assumed growth account for $2.6 billion (58 percent) of the 1988 reestimate and $6.6 billion (81 percent) of the 1992 reestimate.

A second difference arises because CBO used as the starting point for its projections the Department of Treasury's Monthly Treasury Statement for fiscal year 1986, while the Administration used different data, namely National Summary Forms (NSF). Recent NSF data omitted spending of health maintenance organizations, leading the Administration to underestimate 1986 outlays. As a result, CBO's estimates are $1 billion higher in 1988 and $1.5 billion higher in 1992.

Remaining estimating differences are small and relate primarily to reestimates of the President's legislative and policy initiatives. Estimates of many of these initiatives are highly uncertain and will remain so until legislative language precisely defines the policies.

## FUNCTION 600: INCOME SECURITY

MAJOR SPENDING CHANGES PROPOSED FOR BUDGET FUNCTION 600: INCOME SECURITY (By fiscal year, outlays in billions of dollars)

| Item | 1988 | 1989 | 1990 | 1991 | 1992 | Cumulative Five-Year Changes |
|---|---|---|---|---|---|---|
| CBO Baseline | 131.4 | 138.8 | 144.4 | 153.6 | 162.6 | |
| Proposed Changes | | | | | | |
| Retirement and disability | -1.0 | -1.2 | -1.5 | -1.8 | -2.2 | -7.6 |
| Housing assistance | -0.3 | -1.3 | -1.6 | -2.3 | -3.0 | -8.5 |
| Nutrition | -0.9 | -1.1 | -1.2 | -1.4 | -1.6 | -6.2 |
| Family support payments | -0.5 | -0.3 | -0.1 | 0.1 | 0.5 | -0.4 |
| Food Stamps | -0.3 | -0.3 | -0.3 | -0.1 | -0.2 | -1.3 |
| Pension Benefit Guaranty Corporation | -0.3 | -0.3 | -0.2 | -0.2 | -0.2 | -1.3 |
| Low-income energy | -0.6 | -0.7 | -0.8 | -0.9 | -1.0 | -4.0 |
| Refugee assistance | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.6 |
| Unemployment | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.5 |
| Other | -0.2 | -0.2 | -0.2 | -0.2 | -0.3 | -1.0 |
| Total | -4.2 | -5.7 | -6.3 | -7.2 | -8.2 | -31.6 |
| President's 1988 Budget as Estimated by CBO | 127.2 | 133.1 | 138.1 | 146.4 | 154.4 | |
| President's 1988 Budget | 124.8 | 128.7 | 133.5 | 138.9 | 143.6 | |
| CBO Reestimates | 2.5 | 4.5 | 4.6 | 7.5 | 10.9 | 29.9 |

Proposed Policy Changes

The President's proposals would reduce outlays for income security programs by $31.7 billion, or 4 percent, below the CBO baseline over the 1988-1992 period. Many of the proposals are similar or identical to those submitted in previous budgets.

Retirement and Disability. Since major reforms were enacted last year in both the civilian and military retirement programs, this year's budget proposes only moderate changes in current law, which would produce estimated savings of $7.6 billion over five years. Some of these proposals were made in previous budgets but were not approved by the Congress.

The Administration again proposes to limit cost-of-living adjustments (COLAs) in the Civil Service and Foreign Service Retirement and Disability programs. This proposal would affect only civil servants retiring from the old Civil Service Retirement System (CSRS), not those participating in the newly created Federal Employees Retirement System (FERS). COLAs for these beneficiaries would be limited to the increase in the Consumer Price Index (CPI) minus one percentage point. By 1992, retirement benefits in these two programs would be about 5 percent lower under this proposal than under current law.

Another proposed reduction in civilian retirement would repeal the retirees' option to receive their contributions toward retirement in one lump-sum payment, with lower annuity checks in the future. This option was enacted for retirees in both CSRS and FERS as part of the Federal Employees' Retirement System Act of 1986, but no lump-sum payments have yet been made. Under current law, an average retiree selecting a lump-sum distribution could expect a payment of about $20,000 upon retirement, with a 10 percent reduction in his or her annuity each year thereafter. This proposal would allow benefits to be paid only in the form of an annuity. The President's federal retirement proposals would save an estimated $6.6 billion over the projection period.

The President's budget again includes Railroad Retirement proposals to freeze the 1988 cost-of-living adjustment for rail industry pensions, to reduce the COLA for certain pension benefits, and to have the rail sector finance 25 percent of the windfall subsidy payment. The Administration is also requesting increased payments into the rail industry pension fund to protect its solvency. These proposals would save $0.4 billion in outlays from 1988 through 1992.

Benefits in the Black Lung and Special Benefits for Disabled Coal Miners programs are indexed to changes in federal pay. The President proposes to freeze the COLAs for these programs in fiscal year 1988 and to limit them to half of federal pay raises in the following years. The President also proposes an increase in the coal tax, which provides a source of funds for the Black Lung program. These and other proposed reforms would lower outlays in the two programs by $0.6 billion below the CBO baseline over the five-year period.

Housing Assistance. The President has requested budget authority of about $5.3 billion to support the Department of Housing and Urban Development's low-income rental assistance programs. Based on 1987 appropriations, the CBO baseline includes about $9.4 billion for the same programs. The Administration also proposes to provide most of the additional assistance in the form of 5-year vouchers rather than the more traditional 15- to 20-year rental assistance contracts. Only limited additional funding would be provided for construction of housing for the elderly and handicapped and for public housing construction programs. The shift from construction programs and 15-year certificates to relatively short-term vouchers would allow assistance to an estimated additional 82,000 households in 1988, only about 5,000 less than assumed for the baseline.

The President's budget request would also cut budget authority for the public housing modernization program by roughly one-third in 1988 from the $1.5 billion level assumed for the baseline. Lower funding levels would continue, with $735 million assumed for 1989 and beyond. In addition, operating subsidies for public housing projects in 1988 would be funded at a level $200 million below that assumed in the baseline. Together, these changes would reduce spending by $8.9 billion over the projection period.

Low-income housing assistance in rural areas is also proposed for change in the President's budget. Direct loans provided by the Farmers Home Administration for the purchase of single-family houses or the construction or acquisition of multifamily rental properties would be replaced by housing vouchers. The vouchers, beginning in fiscal year 1988, would be used by low-income renters to meet a portion of rental costs. The budget includes funding for about 20,000 rental vouchers each year. This change would add about $0.4 billion to outlays over the five-year period.

Nutrition Programs. The Administration has again proposed to eliminate cash and commodity subsidies to children from families with incomes above 185 percent of the poverty level. In addition to this proposal, the Administration would cap extra payments for breakfasts and lunches served in schools designated in "severe need," lower summer food rates to be comparable with rates in schools and child care centers, eliminate the Nutrition Education and Training program, and eliminate administrative funding for child care audits. These proposals would save an estimated $5.2 billion over the projection period.

Eliminating subsidies to children from families with incomes above 185 percent of the poverty level is estimated to save a five-year total of $4.7 billion. Subsidies would be eliminated for approximately 50 percent of the lunches and 10 percent of the breakfasts served in schools, 25 percent of the meals served in child care centers, 65 percent of the meals served in family day care homes, and 90 percent of the half-pints of milk served under the Special Milk program. In its estimate, CBO assumes that the reductions in federal subsidies would lead some schools to discontinue the program for all students, whereas the Administration assumes all schools would continue to participate. The savings resulting from schools dropping out of the program are relatively small ($350 million over five years), because the schools most at risk of dropping out are those serving relatively few meals to families with incomes below 185 percent of poverty.

Finally, funding for Nutrition Assistance for Puerto Rico would be $0.6 billion below baseline over the projection period, and funding for the Supplemental Food Program for Women, Infants, and Children (WIC) would be $0.3 billion below baseline levels.

Family Support Payments to States. The Family Support Administration (FSA) was created in April 1986, with responsibility for Aid to Families with Dependent Children (AFDC), Child Support Enforcement (CSE), and other programs that provide assistance to low-income families. The Administration has also created a new account--Family Support Payments to States--which includes the AFDC and CSE programs.

The President's budget again proposes a number of cuts in the AFDC program. The most far-reaching change would require many employable AFDC recipients to participate in a work-related activity, such as job search or workfare. The percentage of full-year recipients required to participate would rise from 20 percent in 1988 to 60 percent in 1992. While there is a growing body of evidence that AFDC work programs can be cost effective, the Administration's proposal differs significantly from existing state programs by requiring a larger number of people to participate for longer periods of time. This proposal is expected to produce lower cost savings per participant than have been experienced to date. In fact, CBO estimates that the proposal would result in net costs that increase over time, reaching $756 million by 1992. In contrast, the Administration's estimate shows net savings that would reach $517 million by 1992.

Costs of administering the work programs are similar in the two estimates, but CBO's AFDC savings from the programs are only one-third of the Administration's. In addition, the CBO estimate includes a cost for AFDC savings lost because of the proposed repeal of the Work Incentive (WIN) program. The CBO estimates are based on the recent studies of AFDC work programs in Arkansas, California, Maryland, and Virginia undertaken by the Manpower Demonstration Research Corporation. The Administration's proposal was assumed to have lower savings per participant than existing state programs, however, because--given the participation requirement--programs would be less intensive, treat participants for lengthy periods, and require recycling of participants through work programs.

The proposed work requirement generates sizable savings in Medicaid, but these potential savings would not be realized by the federal government because the President's budget proposes a cap on the Medicaid program (see function 550). CBO also estimates that the work requirement would generate savings in the Food Stamp program. CBO estimates that the President's work proposal would cost $2.1 billion over five years in AFDC.

Most of the remaining AFDC proposals, like work requirements, have been proposed before. These proposals would remove an employable adult's benefit when the youngest child reaches age 16, require that most mothers under 18 years of age live with their parents, and tighten the definition of an "essential" person. Together these proposals would lower benefits for about 185,000 families while saving an estimated $125 million in 1988 and $660 million over five years.

Matching rates on costs for automatic data processing systems and on administrative costs in states where they are high (greater than 125 percent of the U.S. median) would be reduced. A new proposal this year would require the prospective withholding of fiscal sanctions imposed on the states for errors in AFDC payments. Several changes in regulations would also add to savings. Together these proposals would save $1 billion over five years.

The Administration also proposes to modify the Child Support Enforcement (CSE) program, which is still undergoing significant change as a result of the Child Support Enforcement Amendments of 1984. These amendments established a schedule of incentive payments to the states based on their ratios of child support collection to expenditure. Each state, regardless of its ratio, receives an incentive equal to at least 6 percent of child support collections. The Administration's proposal would eliminate this automatic 6 percent incentive payment, lowering payments to states with ratios of less than 1.4. This proposal would affect an estimated 27 states and save about $100 million a year.

A second CSE proposal would require that states set guidelines on the amount of a family's child support award and that courts use this guideline as a "rebuttable presumption" in the setting of awards. Savings are estimated to rise from $25 million in 1988 to $140 million in 1992. However, because of the interaction between the two CSE proposals--that is, with higher collections, incentive payments would rise--savings would be between $20 million and $50 million a year lower than the sum of savings from the separate proposals. Savings from the two proposals would be $0.8 billion through 1992.

In addition, as in last year's budget, the match rate for administrative expenditures in CSE would be reduced in 1988 and 1989, as would the match rate on automatic data processing systems. These proposals would save $70 million over five years.

Food Stamps. The President's budget proposes to increase the amount of fiscal sanctions charged to states with high error rates and to collect the sanctions prospectively, based on projected error rates. Current collection efforts have been frustrated by state legal action. The proposal would save an estimated $0.3 billion in 1988 and $0.9 billion over five years. This estimate assumes that states would continue to appeal the sanctions, and that some of the withheld money would be returned to the states after appeal and litigation.

The Administration also proposes to lower Food Stamp benefits for households with energy assistance and training assistance, and to reduce federal funding for certain administrative costs. These proposals were included in last year's budget, and are estimated to save a five-year total of $0.3 billion. Effects on Food Stamps from the President's AFDC proposal are small in the aggregate because of offsetting costs and savings.

Pension Benefit Guaranty Corporation (PBGC). The President proposes a change in the PBGC's premium charges, from a flat premium of $8.50 per pension plan participant to a premium that would increase according to the unfunded liability in a private employer plan. Pension plans would pay a minimum of $8.50 per participant plus an additional amount for every $1,000 per participant of unfunded liability. The new structure would increase the average premium to an estimated $20 per plan participant and would reduce outlays by approximately $1.3 billion over the projection period.

Despite the tripling of the premium last year, which increases income to the PBGC by approximately $200 million annually, the PBGC is still in a precarious financial position. The extent of underfunding and the number of participants involved in the recent termination of LTV Corporation's pension plans was unprecedented for the PBGC. The estimated 1988 benefit payments for LTV alone are approximately $400 million--$100 million more than premium income from all plan participants. In 1989, under current law, the PBGC will be unable to meet its obligations from current income and revolving fund balances and will be forced to deplete assets in order to pay benefits. With no increase in premium income--or alternative changes--the assets, once expected to finance benefits for retirees many years into the future, would be depleted in an estimated five or six years.

Low-Income Home Energy Assistance (LIHEAP). The Administration requests $1.2 billion in 1988 appropriations for LIHEAP, $0.6 billion below the amount provided for 1987 and $0.7 billion below CBO's baseline projections for 1988. For future years, projected appropriation requests would remain at $1.2 billion, which could produce further outlay savings amounting to $3.4 billion for the projection period. The rationale given for the reduced appropriation request is that states have received money from settlements on oil overcharges that can be used for this program. The states have received $3.1 billion in settlements to date, and CBO estimates that $2.0 billion more will become available between now and 1992. While the total funds from these settlements appear to be sufficient to cover the reductions in energy assistance funding, the state distribution of the monies would be significantly different. The formula for distributing the monies from oil overcharges to states and the formula for distributing energy assistance are different. Based on some preliminary calculations, CBO estimates that eight states could receive a 100 percent increase in energy funds if their LIHEAP grants were replaced with oil overcharge settlement grants, while 11 states could lose over one-third.

Refugee Assistance. The Administration proposes a regulatory change to reduce the number of months for which it would reimburse states for their share of refugee assistance costs. It would reduce from 31 to 24 months the period for which it pays the state share of AFDC and Medicaid costs, and from 18 to 12 months the period for which it pays 100 percent of costs for refugees who receive General Assistance from states. In addition, the Administration would reduce federal funding for state administrative costs and social service grants, and would eliminate grants for targeted assistance. Finally, authority for education assistance would be transferred to the Department of Education in this fiscal year, where it is proposed to be rescinded. The proposals would reduce projected baseline costs by an estimated $0.6 billion over the next five years.

Unemployment Compensation. The President proposes eliminating the trade adjustment assistance program for workers affected by imports. This would save an estimated $0.5 billion from 1988 through 1992. The Administration requests funding for a new and comprehensive program to provide training services for dislocated workers and other workers. Funds for this new program are included in function 500 (education). The budget also discusses a proposal to decentralize the authority, financing, and administration of state unemployment insurance programs. The details of this proposal have not been developed, however, and the budget estimates do not reflect any change.

Other. The President's requests for administrative funds in the Family Support Administration, general departmental management, and the Supplemental Security Income program are below CBO's baseline.

## CBO Reestimates

CBO reestimates raise the President's budget by $30 billion over the five-year period. About two-fifths of the reestimates reflect different economic assumptions--mainly CBO's assumption of higher COLAs and higher unemployment rates. Technical reestimates total $17.5 billion over the period, or 58 percent of the total CBO reestimates. Although there are relatively small downward reestimates in three major programs, most of the technical reestimates are upward.

The largest technical reestimate--totaling $7.9 billion over the five-year period--occurs in the Family Support Payments to States account, which includes the AFDC and CSE programs. In 1992, the Administration's estimate is increased by 25 percent. About two-thirds of the technical reestimate comes from differences in current service baselines, and one-third from differences in estimates of legislative savings.

Most of the baseline reestimate reflects differing assumptions about the rate at which states will increase benefit payments per family. CBO assumes that benefits will rise at a rate of 3.75 percent, which is lower than increases in recent years. The Administration uses a rule of thumb that ties benefit increases to a portion of the rise in the CPI. When the CPI is rising at a modest rate, as in the projected period, the estimated rise in benefit payments is quite low. In addition, CBO estimates that fewer fiscal sanctions for error rates in benefit payments will be collected from the states, partly because of a slower collection schedule and partly because only two-thirds of sanctions are assumed to be collected as a result of legal review.

The reestimate of legislative savings is primarily in savings of the Administration's proposed work requirement for AFDC recipients. The two estimates diverge by growing amounts over time, so that by 1992 the difference is $1.3 billion.

CBO's reestimates of the refundable portion of the Earned Income Tax Credit (counted as a budget outlay) add $3.2 billion to spending over the 1988-1992 period. However, most of this difference is offset in the revenue estimates, which assume a smaller credit against taxes owed.

Civil Service Retirement accounts for the last major reestimate, totaling $3.6 billion through 1992. Though large in absolute terms, unlike reestimates in the two previous programs it reflects a relatively small increase (8 percent) in the Administration's 1992 estimate. Part of the reestimate relates to the Thrift Investment Fund, created by the Federal Employees' Retirement System Act of 1986. Beginning in April 1987, federal employees will be able to make tax-deferred contributions into the fund, and the federal government will match those contributions for certain employees, up to the limit specified in law. These employee contributions are treated as offsetting receipts to the federal government, reducing government spending. CBO assumes federal employees will make smaller total contributions into the Thrift Savings Fund, resulting in estimates of total receipts to the government that are between $0.2 billion and $0.3 billion lower than the Administration's in each year. Further, retirement and separation from federal employment results in payments from the Thrift Savings Fund. Because CBO has higher rates of retirement and separation in 1989 through 1992 than the Administration, payments from the fund are estimated by CBO to be $1.2 billion higher over the projection period. Finally, CBO has slightly higher estimates of benefit payments in the Civil Service Retirement and Disability program, accounting for $1.1 billion of the reestimate over the five-year period.

Remaining technical reestimates in function 600 total $2.6 billion over the five-year period. Unemployment compensation and Food Stamps account for most of this increase.